

AR81



ANNUAL REPORT 2005



WINNIPEG, MB & HEAD OFFICE

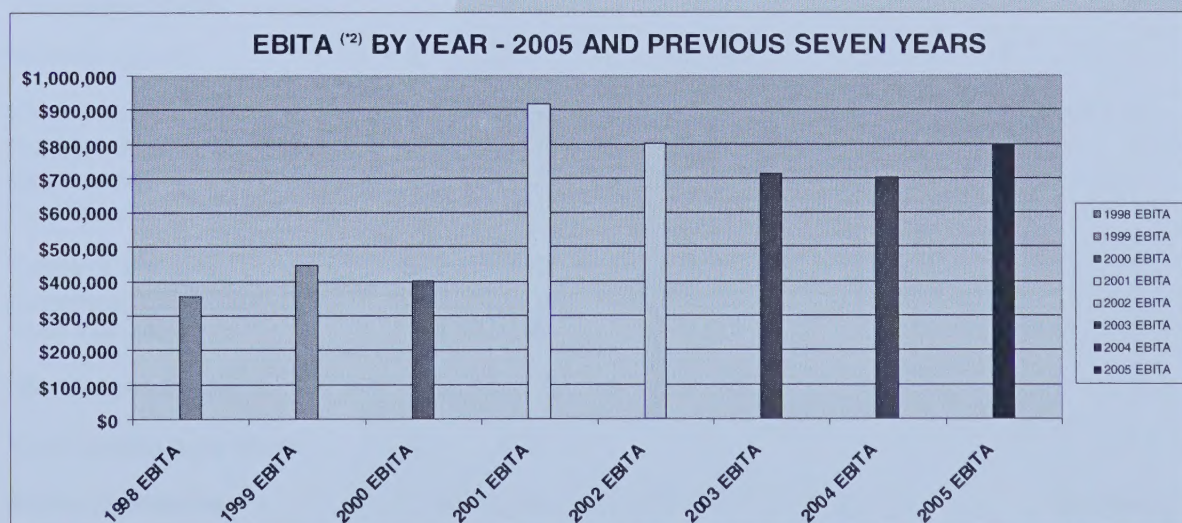
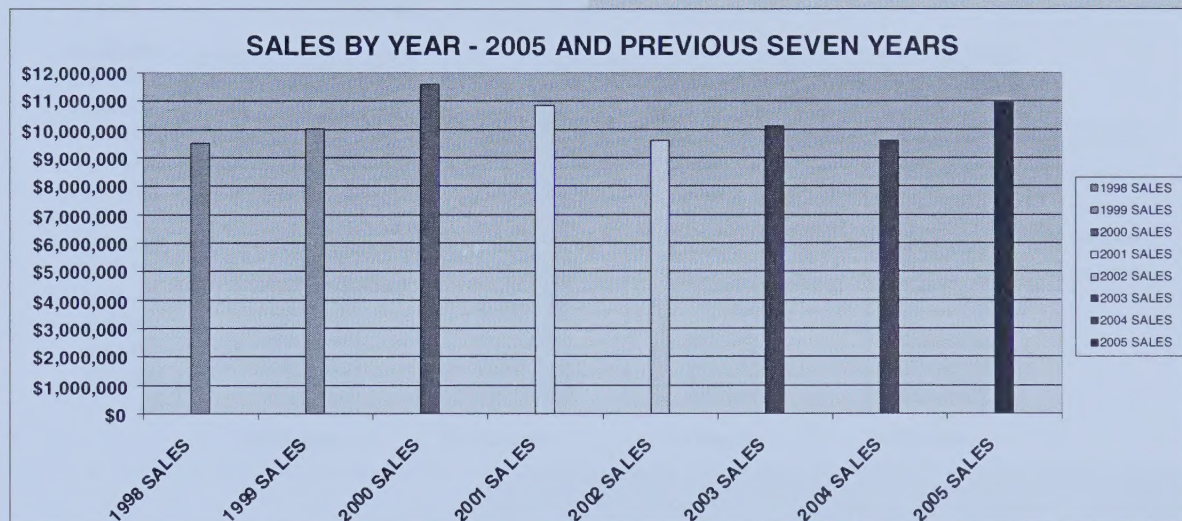


ST. ALBERT, AB

THE COMPANY

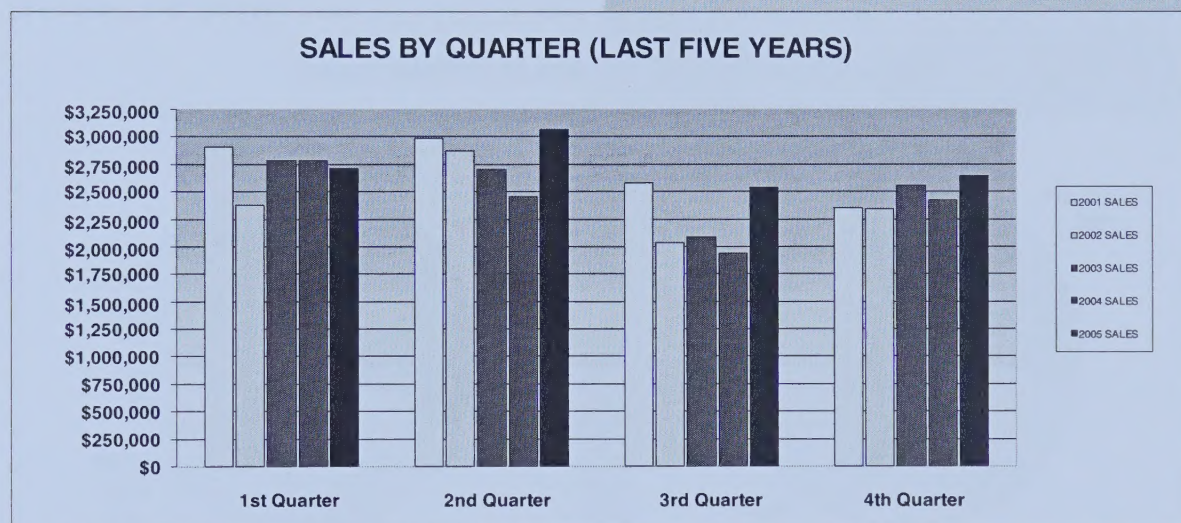
RW Packaging owns and operates two manufacturing facilities, located in Winnipeg, Manitoba and St. Albert, Alberta, Canada. Both manufacturing facilities are committed to the manufacture of high quality consumer products, supplying major retailers, wholesalers, and national brand marketers. The Winnipeg facility is *cGMP* licensed and *ISO 9001:2000* registered, and primarily formulates and packages over-the-counter (“OTC”) pharmaceutical products such as; topical antiseptics, laxatives, first-aid and other personal & infant care products. The *ISO 9002:2000* registered St. Albert facility, is an integrated blowmoulding and filling operation producing common seasonal and household products such as; bleach, fabric softener, ammonia and windshield wash anti-freeze. Approximately two-thirds of the Company’s products are sold under private label or retail brands, and the balance under its own brands. While the Company’s manufacturing capability is focused primarily on packaging of liquid and powder pharmaceutical and household products for retail, it also packages a number of products for industrial clients. The Company’s products are sold across North America. RW Packaging is committed to building an ever-larger Consumer Products company. The Company is a reporting issuer in Manitoba, Alberta and British Columbia, and trades on the *TSX Venture Exchange* under the symbol RWP. All amounts are expressed in Canadian dollars.

FINANCIAL HIGHLIGHTS (Financial years ended December 31)



FINANCIAL HIGHLIGHTS
(Financial years ended December 31)

<u>Operating Summary</u>	<u>2005</u>	<u>2004</u>	<u>One (1) Year % Change</u>	<u>1998</u>
Sales	\$10,958,827	\$ 9,598,584	+14.2%	\$ 9,518,028
Gross Profit (*1)	\$ 2,375,641	\$ 2,129,231	+11.6%	\$ 1,871,574
Gross Profit (Percentage)	21.7%	22.2%		19.7%
Operating Expense	\$ 1,579,748	\$ 1,425,898	+10.8%	\$ 1,515,932
EBITA (*2)	\$ 795,893	\$ 703,333	+13.2%	\$ 355,642
EBIT	\$ 519,966	\$ 461,865	+12.6%	\$ 155,776
Earnings before Tax	\$ 254,815	\$ 137,730	+85.0%	\$ 250,585
Net Earnings	\$ 157,515	\$ 158,330	(0.5%)	\$ 250,585
Earnings per Share – Basic	2.3 cents/share	2.3 cents/share		4.6 cents/share
Cash Flow from Operations (before change in working capital)	\$ 539,503	\$ 351,803	+53.4%	\$ 122,586

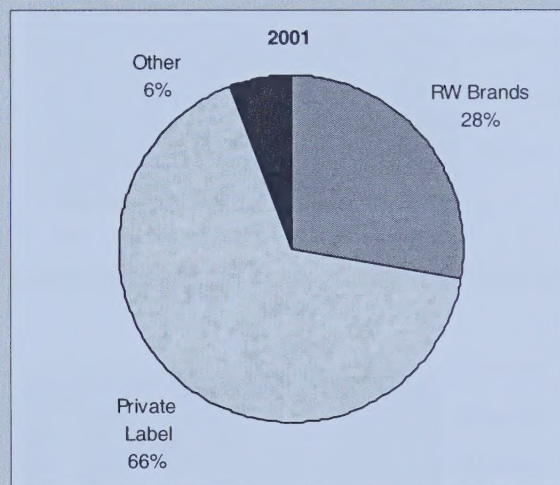
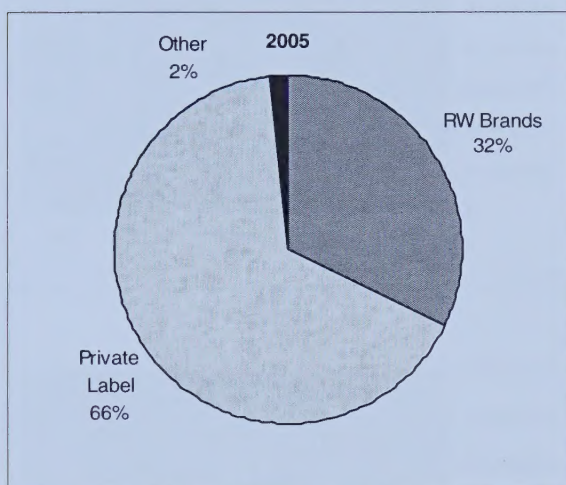


<u>Financial Position</u>	<u>2005</u>	<u>2004</u>	<u>One (1) Year % Change</u>	<u>1998</u>
Working Capital	\$ 8,997	(\$ 28,986)		(\$ 18,299)
Current Assets	\$ 2,394,711	\$ 2,168,482	+10.4%	\$ 2,065,241
Property, Plant & Equipment	\$ 5,311,287	\$ 5,464,242	(2.8%)	\$ 1,806,111
Other Assets	\$ 477,935	\$ 637,980	(25.1%)	\$ 44,858
Total Assets	\$ 8,183,933	\$ 8,270,704	(1.0%)	\$ 3,916,210
Current Liabilities	\$ 2,385,714	\$ 2,197,468	+8.6%	\$ 2,083,540
Long-term Liabilities	\$ 2,542,992	\$ 2,975,524	(14.5%)	\$ 879,400
Total Liabilities	\$ 4,928,706	\$ 5,172,992	(4.7%)	\$ 2,962,940
Shareholders Equity	\$ 3,255,227	\$ 3,097,712	+5.1%	\$ 953,270
Cash Dividends per Share	NIL	NIL		NIL
Shares Outstanding	6,934,398	6,934,398		5,464,064
Book Value (in Cents per Share)	47.0 cents/sh.	44.7 cents/sh.		17.4 cents/sh.

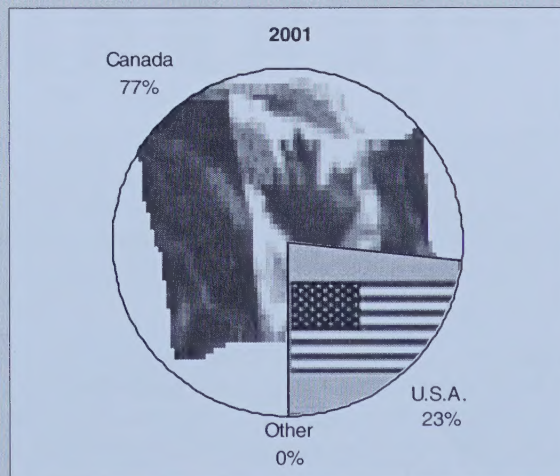
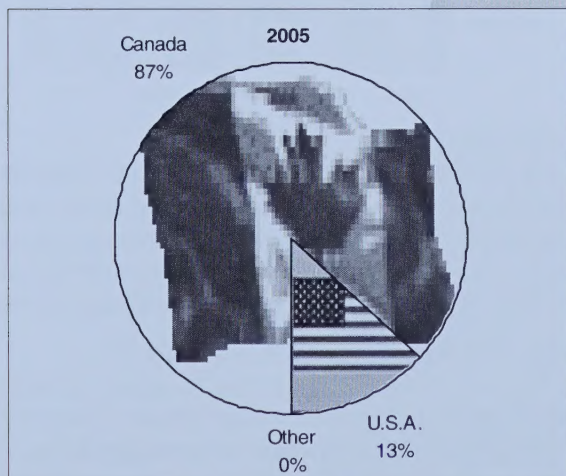
FINANCIAL HIGHLIGHTS
(Financial years ended December 31)

<u>Other</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net Return (%)	5.08%	5.39%	4.29%	8.26%	14.15%
(On Opening Shareholders Equity)					
Return on Invested Capital (ROI)	7.60%	7.91%	7.47%	8.83%	10.98%
EBITA Margin (%)	7.26%	7.33%	7.04%	8.32%	8.47%
Net Profit (%)	1.44%	1.65%	1.21%	2.30%	3.02%
Current Ratio	1.00:1	0.99:1	1.22:1	1.19:1	0.96:1
Total Debt to Equity Ratio	1.51:1	1.67:1	1.42:1	1.40:1	1.75:1
Investments in Property, Plant & Equipment	\$ 93,588	\$1,624,151	\$ 370,464	\$ 169,189	\$ 478,284
Operating Efficiency (Revenue per Employee)	\$ 228,126	\$ 196,816	\$ 211,720	\$ 202,463	\$ 215,751

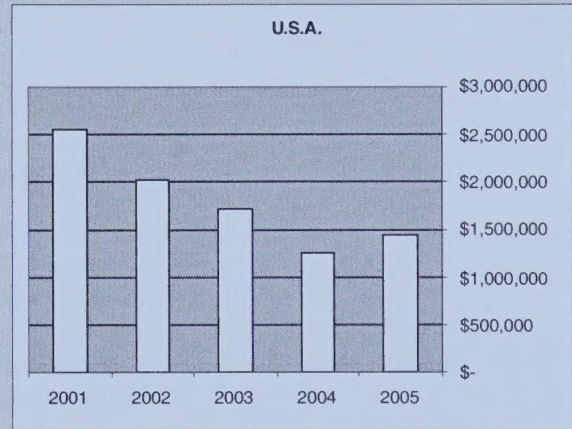
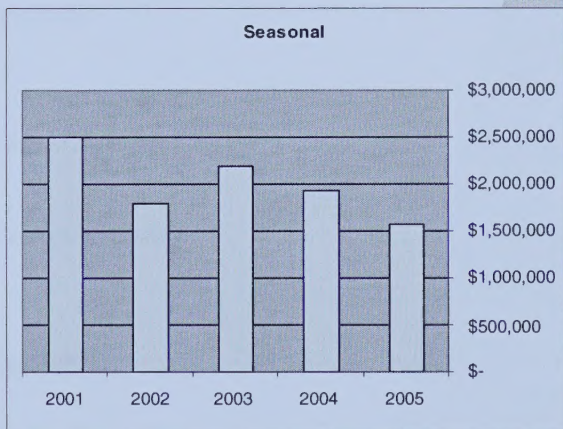
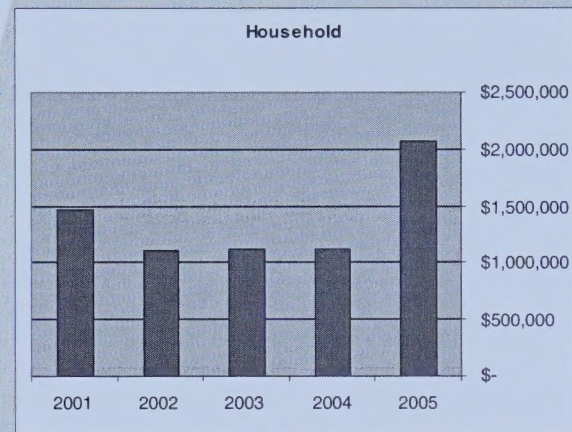
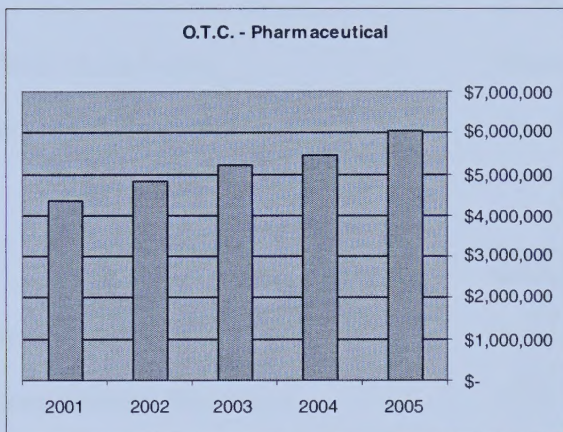
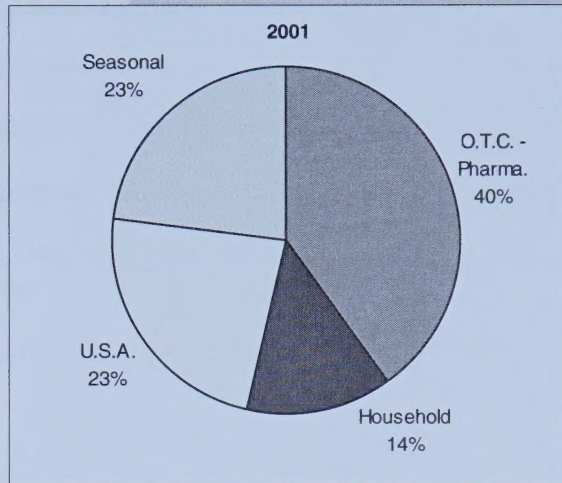
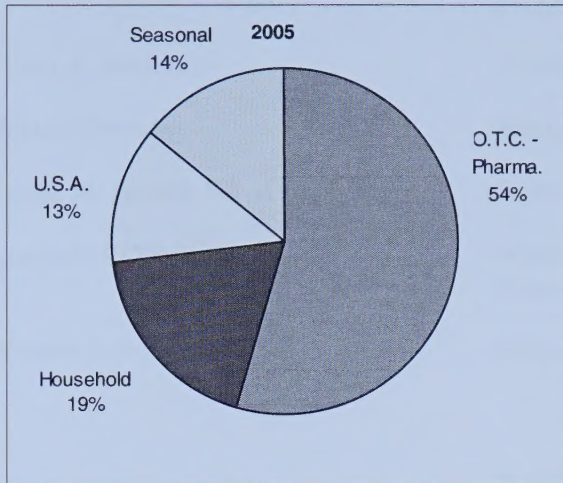
Sales Breakdown by Brands – 2005 compared to 2001



Geographic Sales Breakdown – 2005 compared to 2001



Sales by Product Family – 2005 compared to 2001, and Last Five Years



NOTES: *1) **GROSS PROFIT**— Gross profit is not a recognized measure under cGAAP, as this measure does not have a standardized meaning prescribed by cGAAP, the Company's method of calculating gross profit may differ from other companies. Management believes that in addition to net earnings, gross profit is a useful supplemental measure as it provides investors with an indication of the profits generated on products sold to customers before corporate overhead expenses.

*2) **EBITA** – Earnings before interest, taxes, and amortization (EBITA) is not a recognized measure under cGAAP, as this measure does not have a standardized meaning prescribed by cGAAP, the Company's method of calculating EBITA may differ from other companies. Management believes EBITA is a useful supplemental measure as it provides investors with an indication of cash available prior to debt service, capital expenditures and income taxes.

RWP'S BOARD OF DIRECTORS

Henry A. De Ruiter

Winnipeg, Manitoba, President & CEO, RW Packaging Ltd.

Deanne Downey

West St. Paul, Manitoba, Retired

Zaffar M. Javaid, CA

Pickering, Ontario, Chartered Accountant

Lorrinda F. McMillan, GBA

Winnipeg, Manitoba, President, Brereton House Marketing Corporation

Vincent P. Pileggi

Richmond Hill, Ontario, President, Enroute Imports Inc.

RWP'S CORPORATE OFFICERS

Henry A. De Ruiter

President & CEO

Bernice V. Ryzowski

Vice President, Finance & Procurement

SHAREHOLDER INFORMATION

Audit Committee

Zaffar Javaid (Chair), Lorrinda McMillan, Vincent Pileggi

Compensation Committee

Lorrinda McMillan (Chair), Zaffar Javaid, Vincent Pileggi

Auditors

Scarrow & Donald, Chartered Accountants, Winnipeg, Manitoba, member firm of *Pannell Kerr Forster (PKF)* International Association BV

Legal Counsel

Campbell, Marr, Barristers and Attorneys-at-Law, Winnipeg, Manitoba

Annual Meeting

The Annual Meeting of Shareholders will be held on Wednesday, June 21, 2006 at 1:30 p.m. at the St. Albert Inn, 156 St. Albert Road, St. Albert, Alberta.

Listings

RW Packaging Ltd. shares are listed as RWP on the TSX Venture Exchange (TSX-V).

Transfer Agent

Computershare Investor Services, Inc.

PRESIDENT'S MESSAGE TO SHAREHOLDERS

April 24, 2006

Dear fellow shareholders,

2005 was an exciting year for RW Packaging, despite a challenging business environment.

From the onset of the year the Company continued to be challenged with escalating raw materials costs. These challenges became even more significant during the latter part of 2005, as the devastating hurricane damage to the U.S. gulf coast caused further price volatility on a number of key raw materials over supply availability concerns. Rising energy costs resulted in additional gas and electricity expenses, as well as, higher freight costs as transportation companies increased fuel surcharges in response. Accordingly, selling price adjustments effective in early 2005 were insufficient to recover the increase in input costs, requiring the Company to initiate further compensating selling price adjustments during the year.

The Company also continued to adjust to the further appreciation of our Canadian dollar in relation to the U.S. dollar, reducing the Company's competitiveness in the U.S. market, as well as, negatively impacting the comparative reported amounts of U.S. denominated sales after conversion into Canadian dollars, the Company's reporting currency. However, it is worth noting that the impact on profitability overall resulting from the appreciation of the Canadian dollar remains neutral as the Company's inflow and outflow of U.S. dollars are almost identical.

Despite these aforementioned challenges, "2005 was an exciting and successful year for RW Packaging, as our dedicated and hard-working employees strived to deliver on our strategic objectives, transform our business, and achieve improved operating and financial results." Some of our achievements in 2005 were:

- Sales grew 14.2 per cent over the previous year, increasing to \$10.96 million;
- Gross profit increased 11.6 per cent, despite a 0.5 percentage point reduction in percentage gross profit due to escalating material costs;
- Earnings before interest, taxes, and amortization (EBITA) of \$795,893, grew 13.2 per cent;
- Earnings before tax of \$254,815, grew 85.0 per cent;
- Net earnings in 2005 of \$157,515 (2004 – \$158,330) or 2.3 cents per share were unchanged from the previous year. If the \$70,700 gain reported in 2004 to the Company's future income tax benefit is excluded, comparative net earnings increased 79.8 per cent.
- Cash flow from operations increased 53.4 per cent to \$539,503;
- Case production increased 5.54 per cent over the previous year; and
- Operating efficiency (or revenue per employee) increased 15.9 per cent in 2005, to \$228,126.

Accompanying this message, the Company has included in our annual report additional sales and financial highlights, which reflect the positive results achieved in 2005 and prior years, and the overall improvement in the financial condition of RW Packaging as we continue to reshape our business.

Looking forward, our dedicated employees remain our greatest asset. Their enthusiasm, teamwork, and commitment to our loyal customers will ensure RW's continued growth and prosperity into the future.

Sincerely,

(Signed)

Henry A. De Ruiter
President & CEO

Winnipeg, Manitoba, Canada



MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

(For the Three (3) Months and Year Ended December 31, 2005)

NOTICE TO READER

This Management Discussion and Analysis ("MD&A") of RW Packaging Ltd. (the "Company") provides analysis of the Company's performance, financial condition, and results of operations for the three (3) months and year ended December 31, 2005, as well as, forward-looking statements regarding possible future performance. The following information should be read in conjunction with the accompanying Audited Annual financial statements and notes to the Audited Annual financial statements. This MD&A is dated and current as of March 14, 2006. All amounts are expressed in Canadian dollars.

Caution Regarding Forward Looking Statements

Certain statements made in this MD&A may contain forward-looking statements, including, but not limited to, statements concerning possible or assumed future results of operations of the Company. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Company's actual results could differ materially from those anticipated in these forward-looking statements. Factors which could cause actual results or events to differ materially from current expectations include, among other things: the ability of the Company to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected results; competitive conditions in which the Company participates; general economic conditions and normal business uncertainty; seasonal weather patterns; fluctuations in foreign currency exchange rates; changes in the Company's relationship with its customers, suppliers or financial lenders; interest rate fluctuations and other changes in borrowing costs; and changes in laws, rules and regulations applicable to the Company.

While the Company believes that its forecasts and assumptions are reasonable, results or events predicted in these forward-looking statements may differ materially from actual results or events. The Company intends the forward-looking statements to speak only as of the time first made and disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

OVERVIEW

RW Packaging Ltd. owns and operates two manufacturing facilities in Canada, located in Winnipeg, Manitoba and St. Albert, Alberta. Both manufacturing facilities are committed to the manufacture of high quality consumer products, supplying major retailers, wholesalers, and national brand marketers. The Winnipeg facility is cGMP licensed and ISO 9001:2000 registered, and primarily formulates and packages over-the-counter ("OTC") pharmaceutical products such as; topical antiseptics, laxatives, first-aid and other personal & infant care products. The ISO 9002:2000 registered St. Albert facility, is an integrated blowmoulding and filling operation producing common seasonal and household products such as; bleach, fabric softener, ammonia and windshield wash anti-freeze. Approximately two-thirds of the Company's products are sold under private label or retail brands, and the balance under its own brands. While the Company's manufacturing capability is focused primarily on packaging of liquid and powder pharmaceutical and household products for retail, it also packages a number of products for industrial clients. The Company's products are sold across North America. The Company is a reporting issuer in Manitoba, Alberta and British Columbia, and trades on the *TSX Venture Exchange* under the symbol RWP.

FOURTH QUARTER

The Company reported net earnings for the three (3) months ended December 31, 2005 of \$48,550 (or 0.7 cents per share) on sales of \$2,642,359 compared to a net loss of \$12,211 (or 0.2 cents per share) on sales of \$2,423,636 for the same period in 2004. Sales for the quarter were 9.0 per cent higher than the same period a year ago, attributable to; organic growth, as well as, selling price increases. Domestic sales grew 9.4 per cent resulting from; an increase in pharmaceutical and household products, and reduced by a decline in seasonal products, which were affected by mild winter temperatures and lack of snow across much of Alberta, a key market of the Company for these products. Export sales to the U.S. for the fourth quarter increased 0.7 per cent. The sales growth, shift in product mix and selling price increases resulted in a 48.1 per cent increase in gross profit during the quarter. Gross profit, expressed as a percentage of sales was 25.15 per cent compared to 18.51 per cent last year, an improvement of 6.64 percentage points. Among the primary factors for the comparative increase in warehouse, selling and administration expenses during the quarter were; an increase in utilities, insurance, wages and label artwork costs. EBITA (Earnings before Interest, Taxes and Amortization) for the comparative fourth quarter more than doubled to \$223,237 from \$107,955 the year prior, an increase of 106.8 per cent. Interest expense increased due to; an increase in bank indebtedness used to fund working capital requirements during the period, and in general due to an increase in the bank's prime lending rate. An expense of \$36,000 to the Company's future income tax benefit, for income taxes which would otherwise have been payable, was recorded during the fourth quarter, compared to a gain of \$37,000 in 2004. The gain reported last year resulted from a change in estimate of the expected tax rate and balances carried forward.

OVERALL PERFORMANCE & RESULTS OF OPERATIONS

The measurable improvement in fourth quarter results contributed to an overall improvement in financial condition, results of operations and cash flows for the full year and a third consecutive quarter of year-over-year growth in both sales, and earnings before tax. Earnings before tax for the year increased 85.0 per cent to \$254,815 from \$137,730 in the prior year. Net earnings for the year ended December 31, 2005 were \$157,515 (or 2.3 cents per share) on sales of \$10,958,827 compared to net earnings of \$158,330 (or 2.3 cents per share) on sales of \$9,598,584 in 2004. The difference in net earnings of \$815 or 0.5 per cent was attributable to; the increase in earnings before tax and a change in rate, which resulted in an expense of \$97,300 (2004 – \$50,100) to the Company's future income tax benefit, and a gain reported in 2004 of \$70,700 (2005 – NIL) due to a change in estimate of the expected tax rate and balances carried forward.

Sales for the year increased \$1,360,243 or 14.2 per cent compared to 2004, in line with expectations from management's previous MD&A. Domestic and U.S. sales for the year grew 14.0 and 15.2 per cent, respectively. The growth in sales for the year is attributable to; organic growth domestically in the Company's pharmaceutical and household categories, and higher selling prices in general compared to the previous year. Sales growth in both of the aforementioned categories and export sales to the U.S. surpassed management's budgeted expectations. However, the Company's seasonal products experienced a year-over-year decline attributable to weather, which reduced customer's demand for these products in the first and fourth quarters and represent 80 to 85 per cent of this category's annual sales. While organic growth from existing non-seasonal products continues to be a key element in management's long-term strategy, going forward the Company's sales growth will also be dependent on; its investment of resources to develop new products, as well as, the Company's ability to expand into markets outside of North America.

Gross profit for the year increased \$246,410 or 11.6 per cent, to \$2,375,641 or 21.7 per cent of sales, compared to \$2,129,231 or 22.2 per cent of sales in 2004. The one-half percentage point decrease in comparative gross profit for the year was primarily due to; the timing of when raw material increases were received from suppliers and the effective date of compensating selling price increases to customers earlier in the year, an increase in customer rebates, and in some cases, selling price increases which were insufficient to recover the increase in material costs. Gross profit improved steadily in 2005. Fourth quarter gross profit of 25.15 per cent compared to the preceding quarters (Q3 - 22.07%, Q2 - 19.43%, Q1 - 20.47%), improved 3.08, 5.72 and 4.68 percentage points, respectively. Although percentage gross profit has risen measurably over the preceding quarters, management does not expect this will continue beyond the current period due to; further price increases announced from suppliers, normal shifts in sales mix between quarters, and fourth quarter percentage gross profit is close to historical highs for the Company.

Warehouse, selling and administrative expenses were \$1,579,748 compared to \$1,425,898 in 2004, an increase of 10.8 per cent. An increase in utilities, artwork costs, general insurance expense, wages, and public company expense were among the primary causes for the increase in warehouse, selling and administrative expenses overall. The comparative increase in label artwork costs was due to, deferred charges from prior years, which were expensed in warehouse, selling and administration during the current year. Warehouse, selling and administrative expenses when expressed as a percentage of sales were 14.4 per cent (2004 – 14.9 per cent) for the year, a comparative decrease of one-half percentage point.

EBITA (Earnings before Interest, Taxes and Amortization) for the year was \$795,893 compared to \$703,333 in 2004, an increase of 13.2 per cent. While management strives to grow EBITA at a rate greater than its sales, EBITA growth was 1.0 percentage point less than sales due to; the one-half percentage point decrease in comparative gross profit, and increase in warehouse, selling and administration expenses.

Property, plant and equipment amortization expense increased to \$245,710 (2004 – \$199,045), to provide for amortization of the Company's new facility in St. Albert, Alberta. In 2005, management made a change in estimate with respect to the deferral and amortization of label artwork costs, which in prior years had been amortized on a straight-line basis over three (3) years (see Note 6 of the Company's audited financial statements). In 2005, management expensed label artwork costs in warehouse, selling and administration. This change in estimate reduced 2005 earnings by \$11,153, which would otherwise have been deferred to future years. Management believes reducing the amortization period of artwork costs to 12 months from three years is more appropriate for this type of expense. In 2005, amortization for trademark rights was \$20,332 (2004 – \$20,572). Trademark rights result from a July, 2000 acquisition of a competitor's brands and customer lists, and are being amortized to the end of 2008.

Bank charges & short-term interest expense increased to \$44,588 (2004 – \$22,073) due to an increase in bank indebtedness used to fund the Company's working capital requirements and an increase in the bank's prime lending rate. Interest expense on long-term debt increased 15.2 per cent (\$220,563 versus \$191,382) due to an increase in the bank's prime lending rate, despite a \$411,217 or 12.2 per cent reduction in long-term bank debt compared to the previous year.

In 2004, the Company incurred an expense of \$110,680 (2005 – NIL) related to the closure and relocation of its Alberta operation to a new facility located in St. Albert, Alberta, as well as, other disposition costs.

The Company's preferential manufacturing & processing statutory tax rate for 2005 was 35.6 per cent (2004 – 36.4%) however, the effective rate in 2005 was 38.2 per cent, due to the affect of items that are not deductible for tax purposes. Income taxes that would otherwise have been payable of \$97,300 (2004 – \$50,100) were used to reduce the Company's future income tax benefit. In 2004, a gain of \$70,700 in the expected future income tax benefit was recognized (2005 – NIL) due to a change in balances carried forward and a change in the expected tax rate. As with all estimates, it is possible that changes in future conditions could require further changes in the recognized amounts for income taxes. Should a change be required it would be accounted for in the period in which those amounts became known. The Company follows the liability method of accounting for income taxes, and has a future income tax benefit arising from undepreciated capital cost (UCC) in excess of net book value (NBV) and losses available to be carried forward to the extent they are likely to be realized that reduce any taxes, which would otherwise be payable. Accordingly, management believes that EBITA, earnings before tax, and cash flow from operations are more useful measures of the Company's financial performance, however investors should be cautioned that these measures should not be construed as an alternative to net income determined in accordance with cGAAP.

Retained earnings increased 8.7 per cent to \$1,963,692 from \$1,806,177 and shareholder's equity increased 5.1 per cent to \$3,255,227 or 47.0 cents per share from \$3,097,712 or 44.7 cents per share. Total liabilities compared to the prior year decreased 4.7 per cent, improving the Company's overall debt to equity ratio to 1.51:1 from 1.67:1.

SELECTED ANNUAL INFORMATION

Fiscal Years ended December 31, <i>(All amounts are expressed in Canadian dollars)</i>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Sales	\$10,958,827	\$ 9,598,584	\$10,135,421
Gross Profit (1)	\$ 2,375,641	\$ 2,129,231	\$ 2,303,069
Operating Expenses	\$ 1,579,748	\$ 1,425,898	\$ 1,589,785
EBITA (2)	\$ 795,893	\$ 703,333	\$ 713,284
Amortization	\$ 275,927	\$ 241,468	\$ 300,359
Bank Charges & Interest	\$ 265,151	\$ 213,455	\$ 184,988
Relocation/Disposition Expenses	\$ -	\$ 110,680	\$ 15,960
Earnings before Tax	\$ 254,815	\$ 137,730	\$ 211,977
Net Earnings	\$ 157,515	\$ 158,330	\$ 122,577
Net Earnings per share – basic & fully diluted (expressed in cents per share)	2.3 cents/share	2.3 cents/share	1.8 cents/share
Cash Flow from operations (before change in working capital)	\$ 539,503	\$ 351,803	\$ 458,569
<u>Financial Position</u>			
Working Capital	\$ 8,997	(\$ 28,986)	\$ 351,401
Current Assets	\$ 2,394,711	\$ 2,168,482	\$ 1,941,117
Property, Plant and Equipment	\$ 5,311,287	\$ 5,464,242	\$ 4,329,094
Other Assets	\$ 477,935	\$ 637,980	\$ 844,320
Total Assets	\$ 8,183,933	\$ 8,270,704	\$ 7,114,531
Current Liabilities	\$ 2,385,714	\$ 2,197,468	\$ 1,589,716
Long-term Liabilities	\$ 2,542,992	\$ 2,975,524	\$ 2,585,433
Total Liabilities	\$ 4,928,706	\$ 5,172,992	\$ 4,175,149
Shareholders Equity	\$ 3,255,227	\$ 3,097,712	\$ 2,939,382
Cash Dividends per share, common	Nil	Nil	Nil
Shares Outstanding	6,934,398	6,934,398	6,934,398

The selected annual information noted above has been prepared by management and based upon Canadian generally accepted accounting principles (cGAAP) consistent with those used and described in the audited annual financial statements. The figures presented for a fiscal year are consistent with and reconciled to those reported in the Company's audited annual financial statements for those year(s) ended. An explanation of any period-to-period variations including any resulting from, discontinued operations or changes in accounting policies can be found in other sections of this report.

Non-GAAP Accounting Definitions

1) **GROSS PROFIT** – Gross profit is not a recognized measure under cGAAP, as this measure does not have a standardized meaning prescribed by cGAAP, the Company's method of calculating gross profit may differ from other companies. Management believes that in addition to net earnings, gross profit is a useful supplemental measure as it provides investors with an indication of the profits generated on products sold to customers before corporate overhead expenses.

2) **EBITA** – Earnings before interest, taxes, and amortization (EBITA) is not a recognized measure under cGAAP, as this measure does not have a standardized meaning prescribed by cGAAP, the Company's method of calculating EBITA may differ from other companies. Management believes EBITA is a useful supplemental measure as it provides investors with an indication of cash available prior to debt service, capital expenditures and income taxes.

SUMMARY OF QUARTERLY RESULTS

Summary results for each of the eight most recently completed quarters:

Year ended December 31, 2005	Q4	Q3	Q2	Q1
Sales	\$2,642,359	\$2,540,955	\$3,063,005	\$2,712,508
EBITA*	\$ 223,237	\$ 198,306	\$ 200,907	\$ 173,443
Net Earnings	\$ 48,550	\$ 39,005	\$ 40,893	\$ 29,067
Net Earnings per share – basic & fully diluted (expressed in cents per share)	0.7 cents/share	0.6 cents/share	0.6 cents/share	0.4 cents/share

Year ended December 31, 2004	Q4	Q3	Q2	Q1
Sales	\$2,423,636	\$1,938,485	\$2,456,228	\$2,780,235
EBITA*	\$ 107,955	\$ 143,108	\$ 172,673	\$ 279,597
Net Earnings (Loss)	(\$ 12,211)	\$ 68,686	(\$ 8,500)	\$ 110,355
Net Earnings per share – basic & fully diluted (expressed in cents per share)	(0.2 cents/share)	1.0 cents/share	(0.1 cents/share)	1.6 cents/share

****see “Non-GAAP Accounting Definitions” under Selected Annual Information***

The unaudited summary of quarterly results has been prepared by management and is based upon Canadian generally accepted accounting principles (cGAAP) consistent with those used and described in the audited annual financial statements. The combined total of each of the quarterly figures presented for a fiscal year is consistent with and reconciled to those reported in the Company’s audited annual financial statements.

Historically, the Company’s sales are greater in the first six months of the year than in the last six months, with typically the highest sales occurring during the second quarter and the lowest sales being experienced during the third quarter, although the seasonality of the Company’s sales is less significant today since the majority of sales are generated from pharmaceutical and household products and are less seasonal than the Company’s other product lines.

LIQUIDITY & CAPITAL RESOURCES

Prior to changes in working capital the Company generated cash from operations of \$539,503 (2004 – \$351,803) for the year ended December 31, 2005, an increase of \$187,700 or 53.4 per cent, attributable to the improved operating results and increase in amortization. An increase in working capital required of \$377,786 (2004 – a decrease \$136,427) to support the Company’s growth and operations was financed by a comparable increase of \$352,403 in bank indebtedness from credit facilities currently in place. The increase in working capital required was the result of; an increase in accounts receivable and prepaid expenses, offset by a decrease in inventories, and a reduction in accounts payable. After changes in working capital, cash from operations was reduced to \$161,717 (2004 – \$488,230).

During the year ended December 31, 2005 the Company made investments in property, plant and equipment totaling \$93,588 (2004 – \$1,624,151), of which \$52,232 (2004 – \$157,711) were investments in equipment and tankage, and \$41,356 (2004 – \$1,466,440) were remaining building and property improvement obligations at the Company’s year-old facility in St. Albert, Alberta. Investments in property, plant and equipment made during the current year were funded from operations.

At year-end the Company had working capital available of \$8,997, compared to a working capital deficiency of \$28,986 at December 31, 2004, resulting in a slight improvement to its current ratio. With the majority of the Company’s equity invested in long term assets comprised mostly of property, plant and equipment the Company has operated historically with a low current ratio. While management recognizes the liquidity risks associated with a low current ratio, the Company manages those risks through efficient accounts receivable and inventory turns, which result in a lower amount of working capital being required to operate the business, and as required, through use of the Company’s operating line of credit facility. In 2005, despite an increase in working capital required, total cash turns (the sum of accounts receivable and inventory turns) improved to 76.34 days from 82.50 days. Accordingly, the majority of the Company’s cash from operations is used to fund repayment of long-term debt. With the Company having made significant investments in property, plant and equipment over the last five years, including two new

manufacturing facilities in 2000 and 2004, management believes that capital expenditures for the foreseeable future will be similar to 2005 levels and can be funded from cash generated by operations.

As of December 31, 2005 the Company owed \$717,035 (2004 – \$364,632) under its operating facility, leaving \$32,965 still available, subject to margining conditions. At the end of 2005, the Company had long-term debt totaling \$2,975,524 (2004 – \$3,396,056), a decrease of \$420,532 or 12.4 per cent, comprised of mortgages, a term loan, subordinated debt, and capital lease obligations of which \$432,532 (2004 – \$420,532) is current. Under the existing term(s) of these agreements the Company's current portion owing will begin to decline during the second half of 2006. However, management also expects a reduction to the current portion of the Company's future income tax benefit during 2006 due to the timing and method that expenses are recognized from this asset under Canadian generally accepted accounting principles (cGAAP). Accordingly, while management believes cash flow from operations will be sufficient to discharge its current obligations it does not believe the Company's current ratio of 1.00:1 would likely improve and may in fact decrease.

Management believes RW Packaging is in a position to meet all current and anticipated cash requirements for existing operations, including planned capital expenditures, as well as, debt repayment obligations through cash flow generated from operations (which includes cash generated from assets not classified as current assets) and financing and credit arrangements it has already entered into or would reasonably expect to enter into if required based on the Company's existing financial health. Concurrent with management's continual monitoring of the Company's financial requirements, from time-to-time management may be exploring financing options available to the Company; should circumstances or requirements change necessitating additional capital, as well as, to improve the Company's overall financial position in general.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments consist of: Accounts Receivable, Accounts Payable, Capital Lease Obligations, and Current and Long-Term Bank Indebtedness.

Except for long-term debt, management has estimated that the fair value of all financial instruments approximates their cost because of the short maturity of those instruments. The carrying amount of long-term debt approximates fair value because interest rates are close to market rates. Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. Fair value is estimated based on market information available to the Company. If such information is not available, fair value is estimated using assumptions about the amount and timing of future cash flows and using discount rates that reflect credit risk. The estimate of fair value for the period reported on may not represent fair values at any other date. The assumptions and methods used significantly affect fair value. The determination of fair value is also affected by the use of judgment and by uncertainty. Changes in the interest rate environment and investment risk in one or more of the markets in which the underlying loan security is located may result in significant changes in fair values and are among the primary causes of changes in value.

The Company has adopted credit policies to reduce risk on accounts receivable from customers, which include the analysis of the financial position of customers and review of credit limits. The Company also reviews new customer credit history before extending credit and reviews existing customer credit performance. The Company sometimes requires bank letters of credit or credit insurance. The Company does not have a significant exposure to any individual customer or counter-party. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information.

The Company sells its products, as well as, purchases goods in both Canadian and U.S. currencies. The Company does not engage in any hedging activities or use foreign exchange contracts to manage risk. As the Company's sales and purchases in U.S. dollars are fairly comparable to each other, management believes the Company is reasonably protected from risks due to currency exchange fluctuations. In 2005, the Company had a foreign exchange gain of approximately \$10,000 compared to \$13,000 the prior year.

OTHER

This MD&A accompanying the audited annual financial statements, as well as, additional information relating to the Company is available online at www.sedar.com or the Company's website at www.rwpackaging.com.

<u>Outstanding Share Data</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Shares Outstanding (Common)	6,934,398	6,934,398	6,934,398

The Company currently does not engage any outside firm, party or individual(s) to act on its behalf in the context of "investor relations" or "promotions" as defined by the Securities Act. Management prepares all investor relation's activities such as news releases, quarterly and annual financial reports and shareholder information.

Responsibility for Maintaining Disclosure Controls and Procedures

In accordance with all applicable legal and regulatory requirements for reporting issuers, management is responsible for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is made known to us by others within the Company in order to; ensure its timely, factual and accurate release, and that it is broadly disseminated to the public. Management is further responsible for evaluating the effectiveness of its disclosure controls and procedures annually, and reporting it's conclusions in its MD&A. Management's conclusions are as follows:

During the year, the Company's management reviewed and documented its disclosure control policy and procedures. There were no changes made to the Company's disclosure control policy and procedures. The Company's disclosure control policy and procedures are "controlled" documents and may only be amended by the Disclosure Committee, who will review there effectiveness at least annually, and recommend any changes to the Company's Board for approval. The Company's disclosure control policy and procedures are maintained in the Company's internal policy handbook. All new employees are required to sign an acknowledgement that they have received a copy of and read the Company's policies, rules and regulations. Existing employee's are required to sign an acknowledgement when amendments are made to the Company's policies, rules and regulations. Management has evaluated the effectiveness of it disclosure control policy and procedures and determined they are adequate.

Responsibility for Financial Statements

The information provided in this report, including the accompanying annual financial statements, is the responsibility of management. In the preparation of these statements in accordance with Canadian generally accepted accounting principles for annual financial statements, estimates are sometimes necessary to make a determination of future values for certain assets and liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements. The Company's auditors have audited the accompanying annual financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

RW PACKAGING LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 2005

SCARROW & DONALD LLP
CHARTERED ACCOUNTANTS

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Telephone: (204) 982-9800
Fax: (204) 474-2886
www.scarrowdonald.mb.ca

February 17, 2006

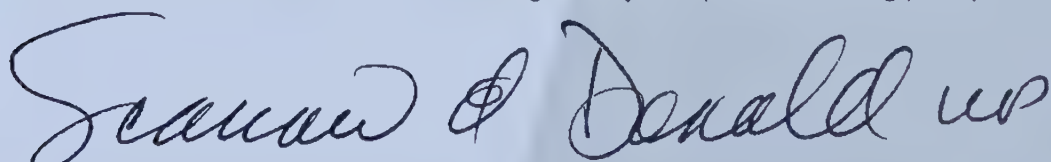
AUDITORS' REPORT

**To the Shareholders of
RW Packaging Ltd.:**

We have audited the balance sheets of RW Packaging Ltd. as at December 31, 2005 and 2004 and the statements of operations and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Winnipeg, Canada

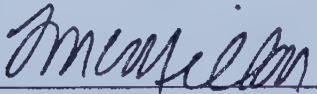
For this communication, together with the work done to prepare this communication and for the opinions we have formed, if any, we accept and assume responsibility only to the addressee of this communication, as specified in our letter of engagement.

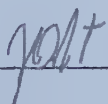
RW PACKAGING LTD.

BALANCE SHEET

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Accounts receivable (Note 2)	\$ 1,025,154	\$ 713,936
Inventories	992,372	1,132,641
Prepaid expenses	89,285	58,605
Future income taxes (Note 3)	<u>287,900</u>	<u>263,300</u>
	2,394,711	2,168,482
Property, plant and equipment (Note 4)	5,311,287	5,464,242
Trademark rights (Note 5)	60,996	81,328
Deferred charges (Note 6)	23,511	55,052
Future income taxes (Note 3)	379,700	501,600
SR&ED investment tax credits (Note 3)	<u>13,728</u>	<u>-</u>
	<u><u>\$ 8,183,933</u></u>	<u><u>\$ 8,270,704</u></u>
LIABILITIES		
Current liabilities:		
Bank indebtedness (Note 7)	\$ 717,035	\$ 364,632
Accounts payable	1,236,147	1,412,304
Current portion of long-term debt	423,216	411,216
Current portion of obligation under capital lease	<u>9,316</u>	<u>9,316</u>
	2,385,714	2,197,468
Long-term debt (Note 8)	2,542,204	2,965,421
Obligation under capital lease (Note 9)	<u>788</u>	<u>10,103</u>
	4,928,706	5,172,992
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	1,291,535	1,291,535
Retained earnings	<u>1,963,692</u>	<u>1,806,177</u>
	<u>3,255,227</u>	<u>3,097,712</u>
	<u><u>\$ 8,183,933</u></u>	<u><u>\$ 8,270,704</u></u>

APPROVED BY THE BOARD:

 Director

 Director

RW PACKAGING LTD.
STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	Year ended December 31	
	<u>2005</u>	<u>2004</u>
Sales	\$ 10,958,827	\$ 9,598,584
Cost of goods sold	<u>8,583,186</u>	<u>7,469,353</u>
	2,375,641	2,129,231
Occupancy costs related to leased building	-	62,037
Warehouse, selling and administrative	<u>1,579,748</u>	<u>1,363,861</u>
Earnings before interest, amortization and other items (EBITA)	795,893	703,333
Amortization:		
Property, plant and equipment	245,710	199,045
Trademark rights	20,332	20,572
Deferred charges	<u>9,885</u>	<u>21,851</u>
	<u>275,927</u>	<u>241,468</u>
Earnings before interest and other items (EBIT)	519,966	461,865
Interest:		
Bank charges and interest	44,588	22,073
Interest on long-term debt	<u>220,563</u>	<u>191,382</u>
	<u>265,151</u>	<u>213,455</u>
Earnings before other items	254,815	248,410
Relocation and other disposition expenses	<u>-</u>	<u>110,680</u>
Earnings for the year before income taxes	254,815	137,730
Income taxes (Note 3):		
Future income tax benefit	97,300	50,100
Change in estimate of future tax benefit	<u>-</u>	<u>(70,700)</u>
	<u>97,300</u>	<u>(20,600)</u>
Net earnings for the year	157,515	158,330
Retained earnings, beginning of year	<u>1,806,177</u>	<u>1,647,847</u>
Retained earnings, end of year	\$ <u><u>1,963,692</u></u>	\$ <u><u>1,806,177</u></u>
Earnings per share - basic and diluted	\$ <u><u>0.02</u></u>	\$ <u><u>0.02</u></u>

RW PACKAGING LTD.

STATEMENT OF CASH FLOW

	Year ended December 31	
	<u>2005</u>	<u>2004</u>
Funds provided by (used in):		
Operating activities-		
Net earnings for the period	\$ 157,515	\$ 158,330
Non-cash items:		
Amortization	275,927	241,468
Amortization of label artwork	21,657	-
Future income taxes	97,300	(20,600)
Manitoba M&P investment tax credits	832	-
SR&ED investment tax credits	(13,728)	-
Additions to deferred charges	-	(10,683)
Proceeds on disposal of property, plant and equipment	<u>-</u>	<u>(16,712)</u>
Cash flow from operations before change in working capital	539,503	351,803
Change in working capital:		
Accounts receivable	(311,218)	71,318
Inventories	140,269	(172,089)
Prepaid expenses	(30,680)	36,203
Accounts payable	<u>(176,157)</u>	<u>200,995</u>
	<u>(377,786)</u>	<u>136,427</u>
	<u>161,717</u>	<u>488,230</u>
Investing activities-		
Purchase of property, plant and equipment	(93,588)	(1,624,151)
Proceeds on disposal of property, plant and equipment	<u>-</u>	<u>16,712</u>
	(93,588)	(1,607,439)
Financing activities-		
Repayment of long-term debt	(411,217)	(392,627)
Repayment of obligation under capital lease	(9,315)	(10,199)
Proceeds of long-term debt	-	1,125,000
Net change in line of credit	235,000	340,000
Purchase of shares for cancellation	<u>-</u>	<u>-</u>
	<u>(185,532)</u>	<u>1,062,174</u>
Change in cash	(117,403)	(57,035)
Cash, beginning of year	<u>(24,632)</u>	<u>32,403</u>
Cash, end of year (Note 7)	\$ <u><u>(142,035)</u></u>	\$ <u><u>(24,632)</u></u>
Interest paid	\$ <u><u>(265,151)</u></u>	\$ <u><u>(213,455)</u></u>
Income taxes paid	\$ <u><u>-</u></u>	\$ <u><u>-</u></u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

1. Summary of significant accounting policies:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies.

a) Accounting estimates-

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

b) Financial instruments-

Except for long-term debt, management has estimated that the fair value of all financial instruments approximates their cost because of the short maturity of those instruments. The carrying amount of long-term debt approximates fair value because interest rates are close to market rates. Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. Fair value is estimated based on market information available to the Company. If such information is not available, fair value is estimated using assumptions about the amount and timing of future cash flows and using discount rates that reflect credit risk. The estimate of fair value at year-end may not represent fair values at any other date. The assumptions and methods used significantly affect fair value. The determination of fair value is also affected by the use of judgement and by uncertainty. Changes in the interest rate environment and investment risk in one or more of the markets in which the underlying loan security is located may result in significant changes in fair values and are among the primary causes of changes in value.

c) Inventory-

Inventory is valued at the lower of average cost and net realizable value for finished goods and the lower of average cost and replacement cost for raw materials.

d) Property, plant and equipment, and intangible assets-

Property, plant and equipment and intangible assets are recorded at cost. Property, plant and equipment and intangible assets with finite lives are amortized over their estimated useful lives. This requires estimation of the useful life of the asset and its salvage and residual value. At the end of each accounting period management considers whether there has been a permanent impairment in the value of property, plant and equipment and intangible assets by estimating the net recoverable amount of the unamortized portion. As is true for all accounting estimates, it is possible that changes in future conditions could require changes in the recognized amounts for accounting estimates. Should an adjustment become necessary, it would be reported in earnings in the period in which it became known. The Company provides for amortization on fixed assets so as to write off the cost of the assets over their estimated useful lives as follows:

Building	- 40 years straight line
Equipment	- 5 - 15 years straight line and declining balance

Trademark rights are recorded at cost and are amortized using the straight-line method over 8½ years.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

1. **Summary of significant accounting policies (cont'd):**e) **Deferred charges-**

The costs of obtaining bank and other debt financing are deferred and amortized on a straight line basis over the effective life of the debt to which they relate.

f) **Revenue recognition-**

Revenue is recognized when title passes to the customer and the collectability of proceeds is reasonably assured.

g) **Translation of foreign currencies-**

Monetary assets and liabilities of the Company's Canadian operations denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets and liabilities and items affecting earnings are converted at rates of exchange in effect at the date of the transaction.

h) **Earnings per common share-**

The Company determines basic earnings per common share based on the weighted average number of outstanding common shares for the year. Fully diluted earnings per share reflects the effect of potential conversion of debt and exercises of warrants and options on earnings per share that would be materially dilutive.

i) **Income taxes-**

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

2. **Accounts receivable:**

The Company has adopted credit policies to reduce credit risk on accounts receivable from customers, which may include the analysis of the financial position of customers and review of credit limits. The Company also reviews new customer credit history before extending credit and reviews existing customer credit performance. The Company sometimes requires bank letters of credit or credit insurance. The Company does not have a significant exposure to any individual customer or counter-party. An allowance for doubtful accounts is established based upon factors surrounding credit risk of specific customers, historical trends and other information.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

3. Income taxes:

The balance of future income taxes consists of losses available to be carried forward for tax purposes to the extent that they are likely to be realized, undepreciated capital cost in excess of net book value arising from the difference between the Company's amortization rates and those prescribed for income tax purposes, and amounts deductible for tax purposes in future periods. Should the actual amount or value of losses used differ from this estimate, any change will be accounted for in the period in which those amounts become known.

The preferential manufacturing and processing statutory tax rate for the current year would be 35.6% (2004 - 36.4%). Accordingly, the current and future tax provision has been accrued at this rate and is affected by items not deductible for tax purposes. The statutory rate differs from the effective rate due to various non-deductible items.

In 2004, the Company recognized a gain of \$70,700 due to a change in balances carried forward and a change in the expected rate.

Income taxes are affected by investment tax credits related to scientific research and experimental development. Canada Revenue Agency, in accordance with their normal policy for scientific research and experimental development expenditures, will be reviewing the Company's submission. Management has estimated the investment tax credits to be received to approximate the effect of past business transactions or events and to approximate the present status of the investment tax credits. It is possible that changes in future conditions could require changes in the recognized amounts for income taxes.

The Company has Manitoba manufacturing and processing tax credits available to offset Manitoba Provincial income taxes payable. The credits for which no benefit has been recorded expire as follows:

2006	\$ <u>27,400</u>
2007	\$ <u>2,800</u>
2008	\$ <u>7,100</u>
2009	\$ <u>1,300</u>
2010	\$ <u>1,000</u>
2014	\$ <u>2,300</u>
2015	\$ <u>3,300</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

4. Property, plant and equipment:

	<u>December 31</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Land	\$ 448,393	\$	\$ 448,393	\$ -
Building	3,222,101	247,776	3,180,745	166,650
Equipment	<u>4,142,753</u>	<u>2,254,184</u>	<u>4,091,354</u>	<u>2,089,600</u>
	<u>\$ 7,813,247</u>	<u>\$ 2,501,960</u>	<u>\$ 7,720,492</u>	<u>\$ 2,256,250</u>
Net book value	<u>\$5,311,287</u>		<u>\$5,464,242</u>	

5. Trademark rights:

Trademark rights include costs incurred to acquire a competitor's trademark and customer lists. Trademark rights result from a \$236,670 acquisition in July 2000.

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Trademark rights, beginning of year	\$ 81,328	\$ 101,900
Amortization	<u>(20,332)</u>	<u>(20,572)</u>
Trademark rights, end of year	<u>\$ 60,996</u>	<u>\$ 81,328</u>

6. Deferred charges:

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Financing costs, net book value	\$ 23,511	\$ 33,395
Label artwork, net book value	<u>-</u>	<u>21,657</u>
	<u>\$ 23,511</u>	<u>\$ 55,052</u>

Label artwork costs have been expensed in warehouse, selling and administrative expense during the current year.

7. Bank indebtedness:

The Company has an operating line of credit for up to \$750,000 with interest at prime plus 0.00% to 2.00%. Security for all debt is indicated in Note 8.

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Line of credit	\$ (575,000)	\$ (340,000)
Cash (bank balance, less outstanding cheques)	<u>(142,035)</u>	<u>(24,632)</u>
	<u>\$ (717,035)</u>	<u>\$ (364,632)</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

8. Notes payable and long-term debt:

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Term loan, repayable in monthly instalments of \$15,767 plus interest at prime plus 0.50% to 2.50%, due August, 2008.	\$ 504,524	\$ 693,728
Mortgage, repayable in monthly instalments of \$5,833 plus interest at prime plus 0.50% to 2.50%, due August 2008.	1,236,662	1,306,662
Mortgage, repayable in monthly instalments of \$4,668 plus interest at prime plus 0.50% to 2.50%, due June 2009.	1,036,234	1,092,247
Subordinated debt, repayable in monthly installments of \$9,000 plus interest at the floating base rate plus 3% plus a monthly administration fee of \$1,700. Monthly principal payments increase by \$1,000 every year until due, August 2007. Secured by a floating charge on all assets subject to prior charges in favour of existing secured lenders, assignment of insurance of \$250,000 on one officer.	<u>188,000</u>	<u>284,000</u>
	2,965,420	3,376,637
Less: Current portion	<u>(423,216)</u>	<u>(411,216)</u>
Long-term debt	\$ <u>2,542,204</u>	\$ <u>2,965,421</u>

The operating line of credit, term loan and mortgages are registered in the first position and are secured by a general security agreement on all equipment, collateral mortgage in the amount of \$1,900,000 on 200 Omand's Creek Blvd., Winnipeg, Manitoba, a collateral mortgage in the amount of \$1,500,000 on 10 Cheigny Street, St. Albert, Alberta, assignment of fire insurance, and assignment of life insurance for \$500,000 on one officer.

9. Obligation under capital lease:

The Company has an obligation under a capital lease for equipment. The lease expires in 2007 as follows:

2006	\$ 9,316
2007	<u>788</u>
	10,104
Less: Current portion	<u>9,316</u>
Obligation under capital lease	\$ <u>788</u>

10. Share capital:

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Authorized- 100,000,000 common shares		
Issued- 6,934,398 common shares	\$ <u>1,291,535</u>	\$ <u>1,291,535</u>

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

11. Foreign currency:

The accounts noted below include amounts denominated in United States currency. The Canadian dollar equivalent is shown below:

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Cash	\$ <u>37,123</u>	\$ <u>5,977</u>
Accounts receivable	\$ <u>38,434</u>	\$ <u>45,635</u>
Accounts payable	\$ <u>80,632</u>	\$ <u>4,263</u>

The amount of foreign exchange gains included in the financial statements is approximately \$10,000 (2004 - gain of \$13,000).

12. Lease obligations:

The Company has lease commitments as follows:

2006	\$ 19,734
2007	14,462
2008	14,462
2009	<u>7,231</u>
	\$ <u>55,889</u>

13. Geographic information:

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Sales-		
Canada	\$ 9,542,200	\$ 8,369,260
United States	<u>1,416,627</u>	<u>1,229,324</u>
	\$ <u>10,958,827</u>	\$ <u>9,598,584</u>

14. Major customers:

Four customers represent approximately \$1,821,200, \$1,483,700, \$1,310,300 and \$1,210,100 of the Company's total revenue for 2005.

Two customers represent approximately \$1,690,400 and \$963,100 of the Company's total revenues for 2004.

